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Adoption of article 11A of regulation S-X

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United States. Securities and Exchange Commission, "Adoption of article 11A of regulation S-X" (1970). *Federal Publications*. 68.
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For RELEASE Wednesday, October 14, 1970

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

SECURITIES ACT OF 1933
Release No. 5090
SECURITIES EXCHANGE ACT OF 1934
Release No. 8997
PUBLIC UTILITY HOLDING COMPANY ACT OF 1935
Release No. 16857
ACCOUNTING SERIES
Release No. 117

ADOPTION OF ARTICLE 11A OF REGULATION S-X

The Securities and Exchange Commission today adopted an amendment to Regulation S-X consisting of a new section designated Article 11A to govern the content of statements of source and application of funds, for which a requirement has recently been adopted in certain registration and reporting forms under the Securities Act of 1933 and the Securities Exchange Act of 1934.

The adoption of a requirement for certified statements of source and application of funds in the registration and reporting forms was an implementation of a recommendation contained in the Disclosure Policy Study report submitted to the Commission last year. In 1963 the Accounting Principles Board of the American Institute of Certified Public Accountants, in its Opinion No. 3, stated its belief that a statement of source and application of funds should be presented as supplemental information in financial reports, but indicated that inclusion was not mandatory and coverage of the statement in the report of the certifying accountant was optional. The opinion was endorsed by the New York Stock Exchange and by the Directors of the Financial Analysts Federation. A survey by the Institute (Accounting Trends and Techniques, 1969) of the 1968 annual reports of 600 companies indicated that 535 (89%) companies presented a funds statement with their financial statements and that such statements were covered in the auditor's report in 443 (83%) of the cases.

The amendment was published in preliminary draft form for public comment on September 15, 1969, in Securities Act Release No. 4998 (Securities Exchange Act Release No. 8686 and Public Utility Holding Company Act Release No. 16460). A number of helpful comments have been received and were carefully considered in the preparation of the definitive article.

This amendment is adopted pursuant to authority conferred on the Securities and Exchange Commission by the Securities Act of 1933, particularly Sections 6, 7, 8, 10, and 19(a) thereof; the Securities Exchange Act of 1934, particularly Sections 12, 13, 15(d), and 23(a) thereof; and the Public Utility Holding Company Act of 1935, particularly Sections 5(b), 14, and 20(a) thereof.

The text of Article 11A is attached to this release.

The foregoing amendment shall be effective with respect to registration statements and reports filed with the Commission after December 31, 1970.

By the Commission.

Orval L. DuBois
Secretary

ARTICLE 11A. STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Rule 11A-01. Application of Article 11A. This article shall be applicable to statements of source and application of funds filed pursuant to requirements in registration and reporting forms under the Securities Act of 1933 and the Securities Exchange Act of 1934, except that companies which are required to file quarterly reports on Form 7-Q shall comply, in all filings, with the requirements as to type, form and content of a funds statement specified in that form.

Rule 11A-02. Statement of Source and Application of Funds. The statement of source and application of funds shall summarize the sources from which funds or working capital have been obtained and their disposition. (See Rule 3-01.)

Material changes in the components of net funds or working capital shall be shown in the statement or in a supporting tabulation.

As a minimum, the following shall be reported:

(a) Sources of funds:

- (1) Current operations (showing separately net income or loss and the addition and deduction of specific items which did not require the expenditure or receipt of funds; e.g., depreciation and amortization, deferred income taxes, undistributed earnings or losses of unconsolidated persons, etc.)
- (2) Sale of noncurrent assets (identifying separately such items as investments, fixed assets, intangibles, etc.)
- (3) Issuance of debt securities or other long-term debt
- (4) Issuance or sale of capital stock

(b) Disposition of funds:

- (1) Purchase of noncurrent assets (identifying separately such items as investments, fixed assets, intangibles, etc.)
- (2) Redemption or repayment of debt securities or other long-term debt
- (3) Redemption or purchase of capital stock
- (4) Dividends

(c) Increase (decrease) in net funds or working capital